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UNITED STATES DEPARTMENT OF AGRICULTURE
Agricultural Marketing Administration
Washington, D. C.

December 2, 1942

TOBACCO BRANCH MEMORANDUM NO. 2

To: Supervisors and Head Graders in the Burley District

From: Chas. E. Gage, Chief

Subject: Ceiling Prices on Burley Tobacco

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There will be sent to you within the next few days copies of the Order and press release by the Office of Price Administration pertaining to the establishment of ceiling prices on Burley tobacco. It is to be expected that there will be some misunderstanding on the part of growers and others with whom you come in contact on the markets as to the effect of these ceiling prices and the relationship of our personnel thereto. For that reason it is desired that all concerned with the inspection service in this type familiarize themselves at once with the provisions of the Order.

The Office of Price Administration after the most careful consideration has decided to establish ceiling prices on Burley tobacco, and in order to avoid the ill effects which resulted from an overall ceiling price as established in flue-cured, a ceiling price has been placed on each grade. However--and this is extremely important--in order to avoid too much rigidity in the resulting price structure, it has been provided that buyers may go above the ceiling prices on any grade if their purchases in other grades are sufficiently below the ceiling so that the total cost is not increased.

It is highly unlikely that all the tobacco of any one grade offered on the market will sell up to the ceiling. Therefore, there are two ways by which the buyer can protect himself if he pays more than the ceiling on a given lot:

1. By purchases below the ceiling on other baskets of the same grade, or
2. By purchases below the ceiling on other grades.

Suppose, for example, a buyer's purchases are confined to two 400-pound lots of B4F and that the ceiling price on this grade is \$43. If he paid at the rate of \$45 for one and \$41 for the other, the cost to him would be the same as if he had paid at the rate of \$43 for all, and he would be within the terms of the ceiling order.

On the other hand, suppose he purchases a number of different grades, and his average cost for B4F was \$45. Then if his costs on some other

grade or grades were sufficiently below their ceilings, he still would be protected. The total cost of a season's purchases may not exceed the cost that would result from the application of ceiling prices to the grades and quantities purchased.

Those of you who were on flue-cured markets will recall that in order to keep within the price ceiling that was established, the buyers were forced to keep the prices on high-grade tobacco down to a point that was relatively low in comparison with medium to low grades. Also, they were compelled to seek out lots of the lowest possible grades, and as a result of the scramble for these low grades the prices for them rose disproportionately. It seemed clear that some buyers were purchasing tobaccos for which they had no particular use except as reducers. The plan that has been adopted for Burley will, it is believed, obviate this abnormal situation.

One effect of rigid ceiling prices by grades, i. e., grade ceilings which could not be exceeded, might have been that growers would feel--and possibly be told--that a higher price could have been paid for some lots had it not been for the ceilings. This arrangement would have resulted in pressure on graders to grade high. Since it is certain that buyers will acquire large volumes of tobacco of different grades at less than the ceiling price, they will have ample leeway under this flexible ceiling arrangement in which to go above the ceiling for particular lots which are on the high side of the grade or which may have been graded too low or for which the competition is great. To express it briefly, the flexible price ceiling outlined by OPA will take the heat off of the inspectors and also promote a more normal marketing situation.

There is one additional feature of the OPA order that should be understood. The ceilings are prescribed only on the basis of straight grades. Such ceilings will apply equally to grades with special factors. The inspectors will certify the tobacco as always, using whatever special factors apply to particular lots. Where the tobacco has special factors such as "K", "V", "M"; etc., the ceiling will be the ceiling for the straight grade. Under this plan, for example, B4GF and B4GR will have the price ceiling stated for B4G.

It is desired that all inspectors be thoroughly familiar with the meaning of the OPA Order so that they may adequately answer questions that may be raised. Each Market Supervisor or Head Grader is requested to get his men together at once and explain the program.

A final word. I am very proud of the inspection organization we have built up. The old members have proved themselves by past performance. The new members came through the training course and grading test in fine shape. I am satisfied that every man is thoroughly qualified and anxious to do a good job of inspection. Good luck!

F-356

Chas. F. Gage

P.S. The Order and press release referred to in the first paragraph will be sent to you from this office as soon as available.